

Commodity Spotlight



Georgia Peanut Producers Association

U.S. Peanut Consumption Rebounds

The humble peanut may lack the glamorous image of some of its competitors such as cashew nuts, almonds, pistachios, and pecans. And with a farm-gate value of less than \$1 billion for the 1997 crop, peanuts barely manage to squeeze in among the nation's top ten field crops, falling far below the \$24-billion corn crop.

But the familiar peanut butter sandwiches in the worker's lunch box and on the school lunch menu confirm a widespread perception of the peanut (AKA ground nut or goober) as a staple item in the American diet. And while not a key player on the national farm scene, the peanut is a long-established commodity in some regions of the U.S., helping to shape the culture and economy of those regions. Peanuts are particularly important to local economies in the coastal plains areas of southwest Georgia and southeast Alabama, the Tidewater area of Virginia, the coastal plains of North Carolina, and portions of central and far west Texas.

Peanuts also count on Capitol Hill. U.S. producers of peanuts for food use have long benefited from a government program that has provided price support at levels well above world market prices. During the 1980's and 1990's, when price

support for other commodities was being reduced in amount and coverage, price supports rose for peanut producers based on increases in costs of production. Also encouraging production during 1986-95 were high levels of government purchases of peanut products for food assistance programs and a minimum national poundage quota. The peanut program that emerged from the 1985 and 1990 farm legislation (specifically for food use peanuts) was likely the envy of other commodity groups and was a testament to the power of supporters of the U.S. peanut program in Congress and elsewhere.

For most government program crops, the passage of new farm legislation in 1996

marked a dramatic move forward along a path to increased market orientation of farm policy. Under the 1996 Farm Act, program payments were no longer linked to planting decisions, nor to market prices. The emphasis turned to increasing producer reliance on market signals when deciding on resource allocation to maximize income.

But changes in the peanut program brought about by the 1996 farm legislation were relatively minor compared with changes for other affected crops. For food use peanuts, supply control in the form of production and import quotas remained in effect. And support prices, though reduced, were maintained well above prices that would likely prevail in the absence of the program. Peanut program advocates may have been relieved to survive the sweeping changes made in other program crops. But U.S. producers faced another problem: extremely bleak domestic demand for food peanuts since the early 1990's.

Once-Steady Demand for Food Peanuts Turns Weak

During the 1950's through the 1980's, annual U.S. food use of peanuts was on a strong run, setting records in 31 of the 40 years. Over this period, food use of peanuts exhibited a very stable growth rate, increasing at 2.1 percent per year. In the late 1980's, peanut food use vaulted higher as a result of increasing government purchases for domestic feeding programs (e.g., School Lunch Program and Temporary Emergency Food Assistance Program). Food use peaked in 1989 at 2.324 billion pounds (in-shell).

U.S. food use of peanuts is comprised of *shelled* and *in-shell*. Edible *shelled* use, by far the larger of the two, is reported according to four categories. Snack peanuts and peanut candy are two such categories, and together account for slightly less than half—about 45 percent—of total shelled peanut use. Peanut butter is by far the largest category, usually amounting to one-half of shelled use. "Other" edible uses account for a small amount of peanuts.

Bucking trends in use among other categories, *in-shell* consumption has set records in 3 of the past 4 years. While this category includes the traditional "ball park" peanuts, new products like flavored in-shell peanuts (e.g. jalapeno, spicy, cajun and salty) have likely helped boost consumption. In 1997/98, use of in-shell peanuts was a record 184 million pounds and represented nearly 9 percent of U.S. food use of peanuts.

Commodity Spotlight

A severe drought in the 1990/91 crop year (beginning in August) reduced supply and drove up prices for peanuts and peanut products. As a result, the average retail price of a pound of peanut butter reached a record \$2.21 in April 1991, 19 percent over a year earlier. Consumption dropped sharply in 1990/91, but rebounded in 1991/92. Prior experience with short crops and high prices suggested that a complete recovery in consumption growth would likely materialize within a couple of seasons as supplies rebounded and prices moderated. Indeed, a year after April 1991, peanut butter prices had fallen to \$1.96 and were down to their pre-drought levels (\$1.86) by April 1993. However, the years following 1991's initial consumption rebound saw an unexpected weakening in demand for food peanuts.

When peanut consumption not only failed to rebound following a return to more normal prices, but also took a nosedive in the mid-1990's, analysts began to focus on other factors driving down use. In the early 1990's, stagnant commercial peanut use, rapidly falling government purchases, and rapidly rising volumes of imported peanuts and products combined to reduce demand for U.S.-grown food peanuts. The government curtailed purchases sharply in 1993 and subsequent years in response to reduced appropriations on food assistance programs and perhaps a reluctance by some meal planners to include peanuts and peanut products because of the fat content. Government purchases declined from a peak of 172 million pounds (in-shell equivalent) in 1992/93 to a low of 49 million in 1995/96. Meanwhile, non-government purchases of peanuts and products had stabilized at about 2.02 billion pounds beginning in 1992.

A phenomenon that profoundly affected the demand for U.S. peanuts for food use was a runup in imports of peanuts and products beginning in the late 1980's, initially in the form of peanut butter and later as peanuts, when trade agreements (i.e., the North American Free Trade Agreement and the GATT Uruguay Round Agreement) increased import quotas. Prior to these changes in trade patterns, imports were such an insignificant factor in the consumption of food peanuts (one-tenth of 1 percent) that the peanut quota (U.S. food-use peanuts) in

Edible Use of Peanuts Ticks Up Since Mid-1990's While Imports Remain Strong

	Commercial sales ¹	Government purchases ²	Total edible use ³	Imports		Quota peanut use ⁴
				Raw peanuts	Peanut butter	
<i>Million lbs.</i>						
1982-85 average	1,851	60	1,910	2	0	1,908
1986	2,007	70	2,077	2	4	2,071
1987	2,001	73	2,074	2	3	2,069
1988	2,137	125	2,262	2	8	2,252
1989	2,160	164	2,324	4	12	2,308
1990	1,997	52	2,049	27	29	1,993
1991	2,117	129	2,246	5	39	2,202
1992	2,020	173	2,193	2	71	2,120
1993	2,028	139	2,167	2	79	2,086
1994	2,020	70	2,090	74	80	1,936
1995	2,019	49	2,068	153	75	1,840
1996	2,060	68	2,128	127	99	1,903
1997	2,094	75	2,169	141	70	1,958
1998	2,125	85	2,210	152	75	1,983

In-shell basis. Crop year beginning August 1. 1998 forecast.

1. Includes imports. 2. Peanut butter, roasted peanuts, and granules. 3. Commercial sales plus government purchases. 4. Total edible use less imports.

Economic Research Service, USDA

a given year was virtually equivalent to projected peanut use. But for the first time, the concept of quota peanut use as only a subset of total edible peanut use had come into play.

Compared with the pre-drought highs in 1989, total purchases fell by about 250 million pounds, or 11 percent, by the end of 1995/96. By 1995, food use of domestic-origin peanuts had fallen to 1.84 billion pounds (in-shell), a 468-million-pound drop from its 1989 peak. Total food use of peanuts fell by less—256 million pounds—as peanut and peanut butter imports increased 212 million pounds (in-shell).

U.S. Peanut Industry Struggles To Regain Footing

With trade agreements opening up the U.S. peanut market to an increase in raw peanut imports, total imports were much higher than in previous years (nearly 10 percent of total food use in 1997/98) and would grow at a modest rate in future years. (The Uruguay Round Agreement, however, also restrained peanut butter imports, which had been unregulated and rapidly growing.) It was clear that the U.S. market could absorb increases in imports and still expand domestic consumption of U.S. food peanuts only if the industry could grow the total domestic

market for food-use peanuts. Such growth had not been seen in years, but the alternative was declining sales of high-value food peanuts and declining farm income.

Peanut industry leaders did not have to look far to find another agricultural commodity group that had undergone a similar upheaval. In the 1970's and early 1980's, the U.S. cotton industry had watched as polyester and rayon drew market share away from cotton. But the trend changed as cotton, a natural product, fit very well into a reversal in consumers' preferences away from manmade fibers. Aided by a coordinated industry promotion effort, cotton rode the wave of consumer sentiment to a position of dominance in textile mill use. By the end of the decade and into the 1990's, domestic mill use of cotton was increasing by an average of about a half million bales a year.

Peanut proponents, on the other hand, found themselves rowing upstream, as consumers focused on healthier eating habits, including reducing consumption of high-fat foods. Peanuts, while high in protein, are also high in fat. Additionally, press reports spotlighted incidences of allergic reactions to peanuts, prompting suggestions from some quarters to ensure that those with allergies did not inadvertently consume peanuts and products.

Commodity Spotlight

Basics of the U.S. Peanut Program

The U.S. peanut program is a two-tier price support program featuring a high support rate for peanuts for food use (quota peanuts) and a much lower rate for peanuts grown for export or crushing (additional peanuts). The price support is administered through nonrecourse marketing loans available to all peanut producers. In order for such a program to be effective,

it is necessary to limit supply through domestic production control and quotas on imports. Any farmer may grow peanuts in any amount, but only those with peanut quota may market their output into food channels—and then in an amount not exceeding their individual quota.

Selected Program Provision	1990 Farm Act	1996 Farm Act
Quota peanut support rate	Tied to cost of production and could increase up to 5 percent per year, but could not decrease. Rose to \$678.36 in 1995/96 season from \$642.80 in 1991/92.	Eliminated cost-of-production escalator. Lowered and fixed the rate at \$610 per short ton for 1996-2002 crops.
National quota poundage	USDA required to announce a national quota poundage equal to amount estimated to be needed for food, seed, and related uses.	Retained. Established a separate quota for seed available to all peanut producers (quota and additional).
Minimum national quota poundage	USDA could not set the quota poundage below 1.35 million short tons.	Eliminated. USDA sets quota poundage equal to domestic food and related uses.
Loan operations	Could (and did) result in substantial costs to taxpayers when government was forced to sell quota peanuts below the loan rate.	Made peanut program “no net cost.” Established plan to increase marketing assessment to cover any losses on loans.

By the mid-1990's, the image of peanuts as a food product was under frequent attack for a broad spectrum of reasons. In response, the peanut industry organized to promote their product by identifying the particular problem and by focusing on the findings of highly credible scientific research.

The Peanut Institute, formed in 1996 by members of the American Peanut Shellers Association, began to assess the results of a Gallup poll on consumers' attitudes about peanuts. The survey revealed that many consumers considered peanuts fattening. It also showed that the industry should improve consumers' knowledge—not only about food attributes of peanuts in general, but also about how peanuts fit into a balanced diet. For instance, some consumers thought that peanuts contain cholesterol, which is only found in animal products. Most fat in peanuts is mono-unsaturated and polyunsaturated (i.e., not saturated). Substituting unsaturated fat for saturated in the diet has been shown to lower blood cholesterol levels, which may reduce risk of coronary heart disease.

In addition, the Peanut Institute funded a study that highlighted the presence in peanuts of the antioxidant resveratrol, the same substance found in red wine to which doctors attributed reduced incidence of heart disease and cancer rates among some segments of the French population. Another study, done at Penn State University, showed that peanuts and peanut butter in a diet could lower total cholesterol and LDL cholesterol levels. With these findings in hand, the peanut industry set about extolling the positive attributes of their product and correcting misconceptions. Fortunately for the Peanut Institute, which operates on a small budget, the research findings were widely publicized by more than 400 newspapers and 60 television stations.

While it is difficult to measure the total effect of these findings on consumer attitudes and their marketplace decisions, U.S. edible peanut consumption is on the rebound. Total edible use rose to 2.13 billion pounds (in-shell) in 1996/97, up nearly 3 percent from 1995/96. In 1997/98, total edible use rose another 1.7

percent, to 2.17 billion pounds. Lower peanut prices may have been a factor in boosting consumption, while the introduction of new products (e.g., flavored spreads for dipping) gave consumers some choices previously not available. Modest increases in government purchases of peanuts and products have also aided consumption.

Calculating Food Use Is Critical

Trends in peanut consumption are closely monitored by USDA in order to implement the peanut program properly, specifically to help set the annual marketing quota. Under the Federal Agriculture Improvement Act of 1996, the Secretary of Agriculture must offer a peanut program if peanut farmers approve the use of poundage quotas. U.S. peanut producers approved poundage quotas for marketing years 1998-2002 in a mail referendum held December 1-4, 1997.

The national peanut poundage quota for the marketing of food-use peanuts is the quantity of peanuts projected for domestic

Commodity Spotlight

food use in the upcoming marketing year. (The quota includes shrinkage, crushing residual, and allowance for disaster transfers and underproduction.) An accurate forecast is critical because a short estimate could drive the cost above what may have prevailed for food peanuts to manufacturers, and ultimately to consumers. On the other hand, overestimation could result in peanut program outlays when excess peanuts are sold at market prices (less than the loan rate). These costs may ultimately have to be borne in large part by peanut producers according to a multi-step procedure designed to ensure that there is no loss to the government (in principal or interest) when operating the peanut marketing loan program.

For the 1998 peanut crop, USDA announced a national peanut poundage quota of 2.334 billion pounds (in-shell), up 3 percent from 1997. The 1997 national peanut poundage quota was up 3 percent from the 1996 level. These quota increases reflect an apparent return to more normal rates of growth in annual U.S. peanut consumption.

But just as the peanut industry looks for a return to normalcy in its market, storm clouds could be forming again. Recently, allergic reactions to peanuts and peanut products have captured press attention again. In August, the U.S. Department of Transportation (DOT) issued a letter to the 10 largest U.S. airlines informing them that according to the Air Carrier Access Act, they must accommodate passengers with disabilities—including those with allergies to peanuts. The DOT ordered peanut-free buffer zones on aircrafts, including the row of seats with the allergic passenger(s) and the rows directly in front and behind.

The DOT decision prompted a sharp reaction by peanut proponents from Georgia to Capitol Hill. Peanut producers, while concerned about losing the airlines' business due to what producers perceive as an overreaction to the problem, fear that gov-

ernment purchases of peanuts and peanut products are at risk (including large purchases for the school lunch program). On Capitol Hill, congressional representatives of peanut-producing states were quick to call for a meeting with DOT officials. With the issue far from settled, some airlines have pointed out that the easiest long-term solution is to serve an alternative, such as pretzels.

In addition to the allergy issue, the U.S. peanut industry faced peanut butter/paste imports from Mexico for the first time in July. Imports from Mexico in August were nearly double the July level. In the late 1980's and early 1990's, it was a similar experience with unchecked, rapidly expanding imports of peanut butter/paste from Canada that undercut demand for U.S. food peanuts. Those imports were subsequently capped under provisions in the Uruguay Round Agreement. However, imports from Mexico are not limited in quantity, provided the peanut butter is made from peanuts that are of Mexican origin.

After considering historical trends in U.S. total edible peanut use as well as other factors likely to affect the demand for U.S.-origin peanuts for domestic food use, USDA anticipates the 1999 national peanut poundage quota to increase 1-5 percent from the 1998 level. USDA will announce the final 1999 quota by December 15, 1998.

In late 1998, domestic food use of U.S. peanuts appears to be on the rebound. However, history has clearly demonstrated that the marketplace can be very fickle. The issue of peanut allergies may cut into U.S. peanut consumption in the short run, but research is underway to develop a peanut in the next few years without the allergen. The recent appearance of peanut butter/paste imports from Mexico, which are under no quantity restrictions, are potentially the most serious challenge for the U.S. peanut industry in the immediate future. The U.S. food

peanut industry must continue to promote its product in order to expand the market sufficiently to allow for growth in domestic production while absorbing larger imports.

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December Releases—USDA's Agricultural Statistics Board

The following reports are issued electronically at 3 p.m. (ET) unless otherwise indicated.

December

- 2 *Broiler Hatchery*
- 3 *Dairy Products*
Egg Products
Poultry Slaughter
- 4 *Dairy Products Prices*
(8:30 a.m.)
Basic Formula Milk Price
(Wisconsin State Report)
(8:30 a.m.)
- 9 *Broiler Hatchery*
- 11 *Dairy Products Prices*
(8:30 a.m.)
Cotton Ginnings (8:30 a.m.)
Crop Production (8:30 a.m.)
- 15 *Milk Production*
Potato Stocks
- 16 *Broiler Hatchery*
Turkey Hatchery
- 18 *Dairy Products Prices*
(8:30 a.m.)
Agricultural Chemicals,
Restricted Use Summary
Cattle on Feed
Cold Storage
- 21 *Chickens and Eggs*
- 23 *Cotton Ginnings* (8:30 a.m.)
Broiler Hatchery
Catfish Processing
Livestock Slaughter
- 24 *Dairy Products Prices*
(8:30 a.m.)
- 29 *Hogs and Pigs*
Peanut Stocks and Processing
- 30 *Agricultural Prices*
Broiler Hatchery
- 31 *Dairy Products Prices*
(8:30 a.m.)